

KADANT INC
Form 10-Q
August 08, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-11406

KADANT INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation or
Organization)

52-1762325
(I.R.S. Employer Identification No.)

One Technology Park Drive
Westford, Massachusetts
(Address of Principal Executive Offices)

01886
(Zip Code)

Registrant's telephone number, including area code: (978) 776-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 1, 2007
Common Stock, \$.01 par value	14,224,747

PART I - FINANCIAL INFORMATIONItem 1 - Financial Statements**KADANT INC.**Condensed Consolidated Balance Sheet
(Unaudited)

Assets

(In thousands)	June 30, 2007	December 30, 2006
Current Assets:		
Cash and cash equivalents	\$ 40,264	\$ 39,634
Accounts receivable, less allowances of \$2,604 and \$2,623	50,346	49,963
Unbilled contract costs and fees	31,851	24,087
Inventories (Note 5)	45,892	41,679
Other current assets	9,597	8,575
Assets of discontinued operation (Note 14)	2,406	4,461
Total Current Assets	180,356	168,399
Property, Plant, and Equipment, at Cost	100,117	97,995
Less: accumulated depreciation and amortization	59,937	57,056
	40,180	40,939
Other Assets	46,502	46,669
Goodwill	138,990	137,078
Total Assets	\$ 406,028	\$ 393,085

The accompanying notes are an integral part of these condensed consolidated financial statements.

KADANT INC.Condensed Consolidated Balance Sheet (continued)
(Unaudited)

Liabilities and Shareholders' Investment

(In thousands, except share amounts)	June 30, 2007	December 30, 2006
Current Liabilities:		
Current maturities of long-term obligations (Note 7)	\$ 10,717	\$ 9,330
Accounts payable	36,422	32,934
Accrued payroll and employee benefits	13,395	15,685
Other current liabilities	30,851	28,449
Liabilities of discontinued operation (Note 14)	1,657	1,459
Total Current Liabilities	93,042	87,857
Other Long-Term Liabilities	19,438	21,594
Long-Term Obligations (Note 7)	39,492	44,652
Minority Interest	1,182	1,017
Shareholders' Investment:		
Preferred stock, \$.01 par value, 5,000,000 shares authorized; none issued	-	-
Common stock, \$.01 par value, 150,000,000 shares authorized; 14,604,520 shares issued	146	146
Capital in excess of par value	91,666	93,002
Retained earnings	161,651	153,147
Treasury stock at cost, 435,273 and 616,737 shares	(10,385)	(14,401)
Accumulated other comprehensive items (Note 2)	9,796	6,071
	252,874	237,965
Total Liabilities and Shareholders' Investment	\$ 406,028	\$ 393,085

The accompanying notes are an integral part of these condensed consolidated financial statements.

KADANT INC.Condensed Consolidated Statement of Income
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended	
	June 30, 2007	July 1, 2006
Revenues	\$ 89,107	\$ 89,567
Costs and Operating Expenses:		
Cost of revenues	54,964	56,847
Selling, general, and administrative expenses	23,087	22,498
Research and development expenses	1,493	1,496
Loss on sale of subsidiary (Note 4)	388	-
	79,932	80,841
Operating Income	9,175	8,726
Interest Income	342	251
Interest Expense	(789)	(804)
Income from Continuing Operations Before Provision for Income Taxes and Minority Interest Expense	8,728	8,173
Provision for Income Taxes	2,705	2,529
Minority Interest Expense	87	47
Income from Continuing Operations	5,936	5,597
Loss from Discontinued Operation (net of income tax benefit of \$615 and \$417) (Note 14)	(1,022)	(627)
Net Income	\$ 4,914	\$ 4,970
Basic Earnings per Share (Note 3):		
Continuing Operations	\$.42	\$.41
Discontinued Operation	(.07)	(.05)
Net Income	\$.35	\$.36
Diluted Earnings per Share (Note 3):		
Continuing Operations	\$.42	\$.40
Discontinued Operation	(.07)	(.05)
Net Income	\$.35	\$.35
Weighted Average Shares (Note 3):		
Basic	14,012	13,702
Diluted	14,202	14,056

The accompanying notes are an integral part of these condensed consolidated financial statements.

KADANT INC.Condensed Consolidated Statement of Income
(Unaudited)

(In thousands, except per share amounts)	Six Months Ended	
	June 30, 2007	July 1, 2006
Revenues	\$ 177,348	\$ 165,158
Costs and Operating Expenses:		
Cost of revenues	110,658	103,821
Selling, general, and administrative expenses	46,583	44,619
Research and development expenses	3,160	3,041
Loss on sale of subsidiary (Note 4)	388	-
Restructuring costs	-	138
	160,789	151,619
Operating Income	16,559	13,539
Interest Income	693	510
Interest Expense	(1,595)	(1,598)
Income from Continuing Operations Before Provision for Income Taxes and Minority Interest Expense	15,657	12,451
Provision for Income Taxes	4,895	3,984
Minority Interest Expense	135	105
Income from Continuing Operations	10,627	8,362
Loss from Discontinued Operation (net of income tax benefit of \$852 and \$494) (Note 14)	(1,414)	(741)
Net Income	\$ 9,213	\$ 7,621
Basic Earnings per Share (Note 3):		
Continuing Operations	\$.76	\$.61
Discontinued Operation	(.10)	(.05)
Net Income	\$.66	\$.56
Diluted Earnings per Share (Note 3):		
Continuing Operations	\$.75	\$.60
Discontinued Operation	(.10)	(.05)
Net Income	\$.65	\$.55
Weighted Average Shares (Note 3):		
Basic	14,010	13,641
Diluted	14,208	13,948

The accompanying notes are an integral part of these condensed consolidated financial statements.

KADANT INC.Condensed Consolidated Statement of Cash Flows
(Unaudited)

	Six Months Ended	
(In thousands)	June 30, 2007	July 1, 2006
Operating Activities:		
Net income	\$ 9,213	\$ 7,621
Loss from discontinued operation (Note 14)	1,414	741
Income from continuing operations	10,627	8,362
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,648	3,755
Stock-based compensation expense	530	804
Loss on sale of subsidiary	388	-
Provision for losses on accounts receivable	26	187
Minority interest expense	135	105
Other, net	(1,554)	(280)
Changes in current accounts, net of effects of acquisitions and disposition:		
Accounts receivable	377	(6,211)
Unbilled contract costs and fees	(7,683)	(15,729)
Inventories	(3,797)	(2,266)
Other current assets	(796)	(1,255)
Accounts payable	3,040	17,198
Other current liabilities	(1,173)	(5,026)
Net cash provided by (used in) continuing operations	3,768	(356)
Net cash used in discontinued operation	(1,096)	(3,461)
Net cash provided by (used in) operating activities	2,672	(3,817)
Investing Activities:		
Purchases of property, plant, and equipment	(1,724)	(1,106)
Acquisitions and disposition, net	(1,268)	(5,574)
Proceeds from sale of property, plant, and equipment	98	110
Other, net	19	(5)
Net cash used in continuing operations	(2,875)	(6,575)
Net cash provided by discontinued operation	660	4,195
Net cash used in investing activities	(2,215)	(2,380)
Financing Activities:		
Proceeds from issuances of Company common stock	5,449	4,265
Purchases of Company common stock	(5,185)	-
Proceeds from issuance of short- and long-term obligations	-	15,008
Repayments of short- and long-term obligations	(3,909)	(12,850)
Excess tax benefits from stock option exercises	1,914	965
Payment of debt issuance costs	(25)	(186)
Net cash (used in) provided by continuing operations	(1,756)	7,202
Net cash (used in) provided by discontinued operation	-	-
Net cash (used in) provided by financing activities	(1,756)	7,202
Exchange Rate Effect on Cash	654	987
Change in Cash from Discontinued Operation	1,275	630

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Increase in Cash and Cash Equivalents	630	2,622
Cash and Cash Equivalents at Beginning of Period	39,634	40,822
Cash and Cash Equivalents at End of Period	\$ 40,264	\$ 43,444
Non-cash Financing Activities:		
Issuance of Restricted Stock	\$ 232	\$ 478

The accompanying notes are an integral part of these condensed consolidated financial statements.

KADANT INC.Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. General

The interim condensed consolidated financial statements and related notes presented have been prepared by Kadant Inc. (also referred to in this document as “we,” “Kadant,” “the Company,” or “the Registrant”), are unaudited, and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the Company’s financial position at June 30, 2007, and its results of operations for the three- and six-month periods ended June 30, 2007 and July 1, 2006 and cash flows for the six-month periods ended June 30, 2007 and July 1, 2006. Interim results are not necessarily indicative of results for a full year.

The condensed consolidated balance sheet presented as of December 30, 2006, has been derived from the consolidated financial statements that have been audited by the Company’s independent registered public accounting firm. The condensed consolidated financial statements and related notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and related notes of the Company. The condensed consolidated financial statements and notes included herein should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 30, 2006, filed with the Securities and Exchange Commission on March 13, 2007.

Certain prior-period amounts have been reclassified to conform to the 2007 presentation.

2. Comprehensive Income

Comprehensive income combines net income and other comprehensive items, which represent certain amounts that are reported as components of shareholders’ investment in the accompanying condensed consolidated balance sheet, including foreign currency translation adjustments, deferred gains and losses and unrecognized prior service loss associated with pension and other post-retirement plans, and deferred gains and losses on hedging instruments. The components of comprehensive income are as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2007	July 1, 2006	June 30, 2007	July 1, 2006
Net Income	\$ 4,914	\$ 4,970	\$ 9,213	\$ 7,621
Other Comprehensive Items:				
Foreign Currency Translation				
Adjustments	2,743	2,788	3,787	3,216
Deferred Gain on Hedging				
Instruments (net of income tax of \$138				
and \$97 in the three and six months				
ended June 30, 2007, respectively, and				
\$46 and \$147 in the three and six				
months ended July 1, 2006,				
respectively)	203	66		